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at the time of the exchange, it was intended that FA become tax-exempt use property.

Example 2. (i) X owns all of the stock of two subsidiaries, B and Z. X, B and Z do not file a consolidated federal income tax return. B and Z each own identical aircraft. B's aircraft (FA) is leased to a tax-exempt entity as defined in section 168(h)(2) and has a fair market value of \$1 million and an adjusted basis of \$500,000. Z's aircraft (DA) is leased to a United States taxpayer and has a fair market value of \$1 million and an adjusted basis of \$10,000. On May 1, 1995, B and Z exchange aircraft, subject to their respective leases. B realizes gain of \$500,000 and Z realizes gain of \$990,000, but neither person recognizes gain because of the operation of section 1031(a). Moreover, assume that a principal purpose of the transfer of DA to B or of FA to Z is to avoid the application of the alternative depreciation system.

(ii) As in *Example 1*, B has acquired property from Z, a related person; Z's gain is not recognized pursuant to section 1031(a); Z has received tax-exempt use property as part of the transaction; and a principal purpose of the transfer of DA to B or of FA to Z is to avoid the application of the alternative depreciation system. Thus, the transaction is within the scope of this section even though B has held tax-exempt use property for a period of time and, during that time, has used the alternative depreciation system with respect to such property. Pursuant to paragraph (b) of this section, B, which has a substituted basis determined pursuant to section 1031(d) of \$500,000 in DA, must depreciate the aircraft over the remaining recovery period of FA, using the same depreciation method and convention. Z holds tax-exempt use property with a basis of \$10,000, which must be depreciated under the alternative depreciation system.

(iii) Assume the same facts as in paragraph (i) of this *Example 2*, except that B and Z are members of an affiliated group that files a consolidated federal income tax return. Of B's \$500,000 basis in DA, \$10,000 is subject to section 168(i)(7) and therefore not subject to this section. The remaining \$490,000 of basis is subject to this section. But see § 1.1502-80(f) making section 1031 inapplicable to intercompany transactions occurring in consolidated return years beginning on or after July 12, 1995.

(e) *Effective date.* This section applies to transfers made on or after April 20, 1995.

[T.D. 8667, 61 FR 18676, Apr. 29, 1996]

§ 1.168(i)-0 Table of contents for the general asset account rules.

This section lists the major paragraphs contained in § 1.168(i)-1.

§ 1.168(i)-1 General asset accounts.

- (a) Scope.
- (b) Definitions.
- (1) Unadjusted depreciable basis.
- (2) Unadjusted depreciable basis of the general asset account.
- (3) Adjusted depreciable basis of the general asset account.
- (4) Expensed cost.
- (5) and (6) [Reserved] For further guidance, see the entries for § 1.168(i)-1T(b)(5) and (6).
- (c) Establishment of general asset accounts.
 - (1) Assets eligible for general asset accounts.
 - (i) General rules.
 - (ii) Special rules for assets generating foreign source income.
 - (2) Grouping assets in general asset accounts.
 - (i) General rules.
 - (ii) Special rules.
 - (3) [Reserved] For further guidance, see the entry for § 1.168(i)-1T(c)(3).
 - (d) Determination of depreciation allowance.
 - (1) In general.
 - (2) and (3) [Reserved] For further guidance, see the entries for § 1.168(i)-1T(d)(2) and (3).
 - (4) Special rule for passenger automobiles.
 - (e) Disposition of an asset from a general asset account.
 - (1) Scope.
 - (2) General rules for a disposition.
 - (i) No immediate recovery of basis.
 - (ii) Treatment of amount realized.
 - (iii) Effect of disposition on a general asset account.
 - (iv) Coordination with nonrecognition provisions.
 - (v) through (viii) [Reserved] For further guidance, see the entries for § 1.168(i)-1T(e)(2)(v) through (viii).
 - (ix) Examples.
 - (3) Special rules.
 - (i) In general.
 - (ii) Disposition of all assets remaining in a general asset account.
 - (iii) Disposition of an asset in a qualifying disposition.
 - (iv) Transactions subject to section 168(i)(7).
 - (v) Transactions subject to section 1031 or 1033.
 - (vi) [Reserved] For further guidance, see the entry for § 1.168(i)-1T(e)(3)(vi).
 - (vii) Anti-abuse rule.
 - (f) Assets generating foreign source income.
 - (1) In general.
 - (2) Source of ordinary income, gain, or loss.
 - (i) Source determined by allocation and apportionment of depreciation allowed.

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- (ii) Formula for determining foreign source income, gain, or loss.
- (3) Section 904(d) separate categories.
- (g) Assets subject to recapture.
- (h) Changes in use.
- (1) Conversion to personal use.
- (2) [Reserved] For further guidance, see the entry for § 1.168(i)-1T(h)(2).
- (3) Change in use results in a different recovery period and/or depreciation method.
- (i) No effect on general asset account election.
- (ii) Asset is removed from the general asset account.
- (iii) New general asset account is established.
- (i) [Reserved] For further guidance, see the entry for § 1.168(i)-1T(i).
- (j) Identification of disposed or converted asset.
- (k) Effect of adjustments on prior dispositions.
 - (1) Election.
 - (1) Irrevocable election.
 - (2) Time for making election.
 - (3) Manner of making election.
 - (m) Effective date.
 - (1) In general.
 - (2) Exceptions.
 - (3) Like-kind exchanges and involuntary conversions.

[T.D. 8566, 59 FR 51371, Oct. 11, 1994, as amended by T.D. 9115, 69 FR 9534, Mar. 1, 2004; T.D. 9132, 69 FR 33842, June 17, 2004; T.D. 9314, 72 FR 9249, Mar. 1, 2007; T.D. 9564, 76 FR 81085, Dec. 27, 2011]

§ 1.168(i)-0T Table of contents for the general asset account rules (temporary).

This section lists the major paragraphs contained in § 1.168(i)-1T.

§ 1.168(i)-1T General asset accounts (temporary).

- (a) through (b)(4) [Reserved] For further guidance, see the entries for § 1.168(i)-1(a) through (b)(4).
- (5) Mass assets.
- (6) Remaining adjusted depreciable basis of the general asset account.
- (c)(1) through (c)(2) [Reserved] For further guidance, see the entries for § 1.168(i)-1(c)(1) through (c)(2).
- (3) Examples.
- (d)(1) [Reserved] For further guidance, see the entry for § 1.168(i)-1(d)(1).
- (d)(2) Assets in general asset account are eligible for additional first year depreciation deduction.
- (d)(3) No assets in general asset account are eligible for additional first year depreciation deduction.

- (d)(4) through (e)(2)(iv) [Reserved] For further guidance, see the entries for § 1.168(i)-1(d)(4) through (e)(2)(iv).
- (v) Manner of disposition.
- (vi) Disposition by transfer to a supplies account.
- (vii) Leasehold improvements.
- (viii) Determination of asset disposed of.
- (e)(2)(ix) through (e)(3)(v) [Reserved] For further guidance, see the entries for § 1.168(i)-1(e)(2)(ix) through (e)(3)(v).
- (vi) Technical termination of a partnership.
- (e)(3)(vii) through (h)(1) [Reserved] For further guidance, see the entries for § 1.168(i)-1(e)(3)(vii) through (h)(1).
- (h)(2) Business or income-producing use percentage changes.
- (h)(3) [Reserved] For further guidance, see the entry for § 1.168(i)-1(h)(3).
- (i) Redetermination of basis.
- (j) through (l) [Reserved] For further guidance, see the entries for § 1.168(i)-1(j) through (l).
- (m) Effective/applicability date.

[T.D. 9564, 76 FR 81086, Dec. 27, 2011]

§ 1.168(i)-1 General asset accounts.

- (a) through (1)(1) [Reserved] For further guidance, see § 1.168(i)-1T(a) through (1)(1).
- (1)(2) *Exceptions*—(i) *In general.* (A) Paragraph (b)(1) of this section applies on or after June 17, 2004. For the applicability of § 1.168(i)-1(b)(1) before June 17, 2004, see § 1.168(i)-1(b)(1) in effect prior to June 17, 2004 (§ 1.168(i)-1(b)(1) as contained in 26 CFR part 1 edition revised as of April 1, 2004).
- (B) Paragraphs (c)(2)(ii)(E) and (h)(2) of this section apply to any change in the use of depreciable assets pursuant to § 1.168(i)-4(d) in a taxable year ending on or after June 17, 2004. For any change in the use of depreciable assets as described in § 1.168(i)-4(d) after December 31, 1986, in a taxable year ending before June 17, 2004, the Internal Revenue Service will allow any reasonable method that is consistently applied to the taxpayer's general asset accounts or the taxpayer may choose, on an asset-by-asset basis, to apply paragraphs (c)(2)(ii)(E) and (h)(2) of this section.
- (ii) *Change in method of accounting*—(A) *In general.* If a taxpayer adopted a method of accounting for general asset account treatment due to a change in the use of depreciable assets pursuant to § 1.168(i)-4(d) in a taxable year ending on or after December 30, 2003, and